

## **JFTC Essay Competition 2008, Prize for Excellence**

### **Anatomy of Japanese Business Leading to Sustainable Growth**

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#### **( summary )**

Global environmental issues and making sustainable growth have long been on worldwide agenda, constituting an important topic for discussion at the G8 summits and the United Nations conferences. Some organizations like the World Bank Group revealed the problem is centered on the cooperation among nations and between public sectors and private sectors. With a colossal amount of money and a coherence of efforts, the world has been in the throes of addressing the global environmental matters while heading towards sustainable growth's objectives. Among nations Japan is one of the leading countries in promoting global environment consciousness as exemplified by holding Kyoto Meeting. Japan's experience exhibits how technology, government policy and private sector initiatives can be used to escalate efficiency and surmount resource constraints facing the world now. Japanese firms have responded boldly to environmental issues by introducing technology and delving into technical capabilities development. Not only did they achieve environmental goals, but they also penetrated into new green technology market. Together with the Japanese state-of-the-art management systems, including top-down management practice, incorporating environmental vision into business strategy, and utilizing human resources and accounting systems, Japanese business has respectable areas that developing and developed countries can imitate or make use of.

Japan is staying ahead in the future in addressing the global environmental problem. It is reckoned that there is no one mode that will be effective in all circumstances. However, the Japanese-style business does not preclude its applicability to other countries.

Deteriorating as Global environment is, it is not the worst of time. It may be the best time instead. From an optimistic perspective, entrepreneurs or scientists are attempting for breakthrough to better people's welfare while improving environment. As Charles Dickens, one of the most popular English novelists, said it was the best of times; it was the worst of times in 'A Tale of Two Cities'. This saying quite tells about our current situation of the world we are living in.

**(full text)**

## **Anatomy of Japanese Business Leading to Sustainable Growth**

### **Introduction**

Global environmental issues and making sustainable growth have long been on worldwide agenda, constituting an important topic for discussion at the G8 summits and the United Nations conferences, concerning from the arena of science to economics'. Developing countries or even some developed countries tend to feel stern environmental standards may harm economic vitality, and their positive responses to global environmental issues would be constrained by the mounting needs to combat poverty and to boost economy. Developing countries also believe developed countries should take up the mantle of tackling the environmental degradation and absorb the cost of that. Controversial as the issue still appears to developed countries and transition economies, the seriousness of the global environment in fact requires a respectively serious global response. Some organizations like the World Bank Group revealed the problem is centered on the cooperation among nations and between public sectors and private sectors.<sup>1</sup> To put it bluntly, for instance, at the General Assembly of United Nations in September 2008, Secretary-General of United Nations, Ban Ki-moon, urged for the cooperation among developed and developing countries to resolve the pressing and thorny problems of environmental damage and eradication of poverty. With a colossal amount of money and a coherence of efforts, the world has been in the throes of addressing the global environmental matters while heading towards sustainable growth's objectives.<sup>2</sup>

Among nations Japan is one of the leading countries in promoting global environment consciousness as exemplified by holding Kyoto Meeting in 1997. Japan's experience exhibits how technology, government policy and private sector initiatives can be used to escalate efficiency and surmount resource constraints facing the world now.<sup>3</sup> This essay renders Japanese businesses' experience how they benefit economically in line with the environment protection.

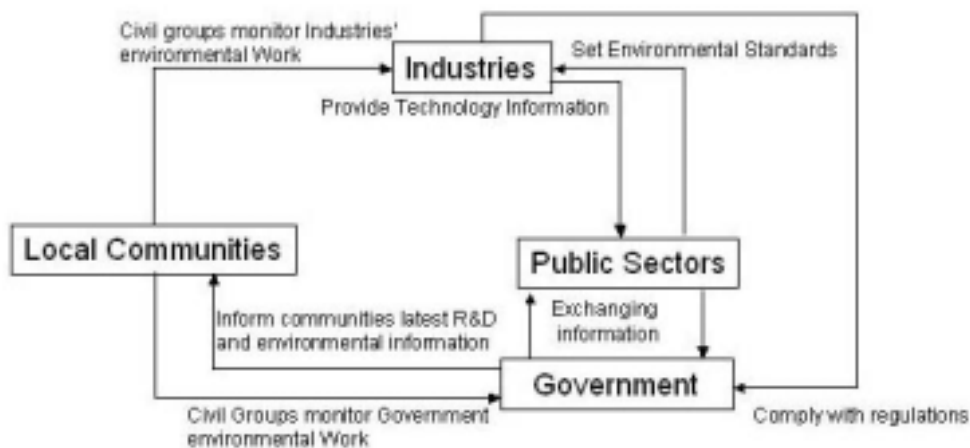
### **Japanese businesses in response to environmental pollution**

Japanese companies have been responding to environmental issues for decades. Antipollution laws by local Japanese governments were first enacted around 1950 in the Tokyo and Osaka metropolitan areas, where industry is heavily populated.<sup>3</sup> Since then, stringent ordinances have been enforced by Japanese government in wake of severe health problems afflicted by environmental pollution, such as Minamata and Yokkaichi diseases. Companies therefore tend to comply with regulations in order to

exempt themselves from heavy penalty as well as to give in to public appeal.

### 1. Work Through with public sectors and government

Japanese companies generally are in favour of environmentally friendly strategy, and are willing to pursue a sustainable growth. Private business sectors collaborate with the government, public sectors and concern groups by setting up committees to help in the formation of environmental measures as well as the national visions of economic development and environmental policy. As shown in Graph 1, each party has its own but interlocking role. Ultimately, the interrelationship creates a self-monitoring but progressive system towards economic growth in consideration of environmental protection.



Graph 1. Interrelationship among private sectors, public sectors, government, and local groups

With the patronage of the government, Japanese companies also have taken part in various projects with universities and the government. The collaborative effort contributes to salvaging the environment. Projects such as Millennium Project and New Sunshine Project<sup>4</sup> were implemented to achieve greater energy efficiency and energy sources.

### 2. In compliance with international standard

In light of environmental awareness, customers and shareholders are increasingly demanding environmentally responsible products. They prefer environmentally compliant products and expect companies should be dedicated to protecting environment. Therefore, companies have to strive to conform to international standard like ISO 14001, which enables them to demonstrate commitment to the environment.

In Japan, many corporations have their environmental management systems earn the laurel of this certification. They have to go through rigorous procedures on how to

manage business activities in aspects of environmental protection, and socio-economic needs. To cite some examples, Sony Group has its own environmental vision and has ISO certification in place. Toyota has all manufacturing plants and logistics sites and even some of its offices meet this requirement of registration. Displaying commitment to the environment can alter corporate culture by exploring new business opportunities with environmentally aware customers. Certainly, compliance can provide firms with a better use of energy and resources as well as improve business performance.

### **3. Develop and utilize environmentally-friendly technology**

Japanese business initiatives in technology development and production process innovation for pollution control and energy conservation can positively affect the global environment. For example air pollution control is linked to fossil fuel combustion, which has already been aimed by measures at energy conservation and reduction of CO<sub>2</sub> emissions. In turn, energy conservation has contributed to rises in productivity as well as air pollution control and global warming prevention.

The Japanese government has adopted the Polluter Pays Principle (PPP) established in the early 1970s that undoubtedly has been prompting actions in business to conserve the environment. Strict requirements on business activities, based on PPP, result in bringing in technologies, equipment and management system for effective pollution control. Japanese corporations are well-known by its emphasis on technology and its development supplemented by innovative management and human resource development, the fact stressing that many countries also mirror Japanese business' systems or governance in terms of Green policies and technologies.

Advanced production processes and substitution of outdated equipment with state-of-the-art equipment have improved production, resource, and energy efficiency. Not only does technical development outflank the competitors and reap economic benefits, but it also conserves the globe. Japanese firms are inspired to shift their investment to areas that consume less energy and also to deploy energy-saving production equipment, which tends to create less pollution (Mani and Wheeler, 1998)<sup>5&6</sup>.

The Nippon Steel Corporation (NSC) in Japan, for example, is instituting and putting forward the development of the most up-to-date technology for recyclable energy, and in the development and transfer of CO<sub>2</sub> reduction technology in the steel industry worldwide.<sup>7</sup> Promoting new environmental conservation measures in resource recycling, energy saving, and zero emission, NSC has soothed the "aching globe", pursuing to arrest global warming through contributing to society development.

## **Green Technology as a strategy for sharpening business competitiveness edge and delving into new business opportunities**

Literature viewed that adequate access to new-fashioned clean technologies often promotes a society on sustainable development. <sup>3</sup> In practice, although environmental measures like upgrading green technology are regarded as unprofitable in the short term, it is not necessarily justified. Japanese companies have realized that there is a large prospective market for environmental technologies. It illustrated in history that the Japanese automobile industry grabbed an opportunity in the marketplace. The industry capitalized on the escalating demand for fuel-efficient automobiles by improving fuel efficiency in car, and strengthened emission control system, vehicles thus penetrating into foreign mature markets such as Europe and the United States. In the 1970s, Japanese auto makers actually outpaced their American competitors in developing technologies to comply with the 1970 U.S. Clean Air Act amendments. In recent years, the Toyota Hybrid automobile was so expecting too in the market that blends gasoline-geared engine and electric motor.

Business opportunities do not limit to technology-focused automobile industry in Japan, but they also go to technical consulting services, such as forestry management consulting service, and Clean Development Mechanism projects by means of introducing clean technology. Japanese firms are enthusiastic about environmental technology and research and development because they perceive a high level of environmental technology would raise competitiveness. A new market is opened through developing technology, and environmental protection has evolved into a new way of business strategy for elevating economic competitiveness. The Japanese firms' response to global environmental matters has been considered as part of a larger plan of supplying goods and services to other nations.

### **Technology Transfer**

As a provider of environmentally technology-related services or goods to other nations, Japanese firms have expanded the cooperation at a national level. This in turn is instrumental to preserving the earth in multilateral efforts and particularly to helping the transition economies build up local technical expertise and better the welfare of the local community ultimately.

Deforestation recently has become an intractable problem around the globe, worsening the problem of global warming. The increasing demand for timber in developing nations has deepened the situation. Sumitomo Forestry Company Limited plays a vital

role in timber industry in response to this matter. On a tropical reforestation program implemented by the Company<sup>8&9</sup>, it dispenses free seedlings to local people in Indonesia for their planting, and instills the knowledge of forestation to them, and then they sell back to the Company years later when trees are ready for harvesting. This strategy they call 'social forestry' is by way of cooperation between countries to make sustainable growth. Japanese firms make use of technical knowledge and financial resources for promoting forest cultivation abroad whereas Indonesian communities are expecting social and economic development. Simultaneously, as a result of investing in and controlling overseas logging exercises, Japan has stopped illegal logging in overseas countries and contributed to forest preservation in the world. The Company has also adopted timber certification procurement system that it encourages its business partners or suppliers to comply with. The win-win policy greatly pushes Japanese corporations ahead towards a sustainable development's goal.

### **Japanese Environmentally Friendly Business Strategy**

A corporation's success hinges on the business strategy outlining the direction of the business. With this said, the integration of environmental policy into business policymaking is crucial to heading sustainable growth.

The business federations are also contributing to address environmental issues associated with economic growth. Nippon Keidanren is a kind of Japanese Business Federation, which is a comprehensive economic organization by combining Nikkeiren (Japan Federation of Employers' Associations). Its membership comprised 1,343 companies, 130 industrial associations, and 47 regional economic organizations as of June 2007. Nippon Keidanren's mission is to create value to transform Japanese economy into a sustainable one driven by the private sector and supported by local communities. It resolves to work through the concerns of a Japanese business community such as economic, environmental, and social ones. It will convince members to stick to Charter of Corporate Behavior and Global Environment Charter. In 1991 Keidanren applied a Global Environmental Charter to regulate its firms' operations abroad. All member firms must adhere to Keidanren's environmental guidelines for Japanese enterprises operating overseas. The guidelines emphasize applying Japanese strict standards of managing harmful substances, setting up an environmental management system, educating staff to implement system, and imparting information to the local community regularly.

The business strategy is therefore tailored to respond to the Charter. This is very common in Japan to entail environmental issues into business plan as reflected that many a Japanese corporation have annual sustainability report or environmental

report. The management of companies in the developing countries and even western counterparts should follow suit. Decision determines destiny. A right environmental decision affects the next generation.

## **Business Management System contributing to sustainable development**

### **1. Corporate management with environmental awareness**

As mentioned above, it is essential that management views environmental matters as a strategic subject of corporate management. It is not surprising that senior management like Chief Executive Officer or Chairman of a Japanese company takes up the key role of environmentally related task force. This is not popular in companies in developing countries particularly. Top managements have clear visions that are embedded in their companies' management principles. Management's strategic plans are formulated under these principles and new management departments are established in many Japanese firms to help top executives with managerial decisions. In effect global environmental problems have caused many companies in Japan to build top-down management procedures and implement organisational reforms. 6 Toyota is a good example to show top-down management style to address environmental issues globally.

The environmental management cannot be delegated to anyone within a company unless he or she is empowered enough to exert influence on every part of business. Human resources factors therefore have a pivotal role in introducing and improving environmental equipment and green technologies in Japan. In some industries, Pollution Control Manager is keenly marketable.

Besides, personnel management practices in Japan tend to be offering a life-time employment that more or less consolidates the environmental commitment within a company. The long-tenured personnel of a company can pass on its value to new generation. This is a special characteristic of Japanese business that is also applicable to other countries. Unlikely as the same characteristic of business style is completely imitated, it implies the high retention of employees is effective in a way of achieving sustainability goals.

### **2. Environmental Management extended along the business groups**

According to the Wikipedia, Keiretsu is a set of companies with interlocking business relationships and shareholdings. This is a conventional type of business that is still affecting Japanese economy to a certain extent. Because of its interweaving relationships among companies, the empowerment of pollution control within a Keiretsu in principle works well in cope with global environmental issues. Firms

within Keiretsu conform to strict standards. For Japanese companies, the environmental management is actually extended to all areas of procurement, production, distribution and waste management along the supply chain model.

### **3. Philosophy of environmental accounting**

Management of Japanese enterprises is also concerned about costing of waste disposal and benefits of removing sources of pollution. Environmental accounting is fruitful in gauging the effectiveness of green schemes.

### **4. Environmental Management Committee**

A steering management committee in a company is essential to enhance environmental efforts in general business management. It does not necessarily consist of senior management only, but it can call up representatives at different levels. Brainstorming new measures and action plans are most welcome in the committee. Environmental endeavours are realised through various business activities. For example, the Environmental Management Committee of the Nippon Steel Corporation is encouraged to convey the environmental information to all levels of the company. The participatory efforts of employees will become an impetus to the company's sustainable growth.

### **5. Corporate Social Responsibility**

Apart from quality and functionality, successful products are attributable to reputable brand. Companies can demonstrate environmental responsibility through their business activities and production of products. The product image is alluring, company realizing corporate social responsibility. Nowadays, Japanese products can go to international market partly because of their green labeling effect.

### **Japanese Culture**

Traditionally Japanese are living in harmony with the natural environment. As a nation with a great devotion to nature, people are conscious of potential impact of their activities on the environment, contributing to economic growth in harmony with preserving principles. This belief is worth infiltrating to other nations. The generally harmonious culture leads to collaborative success in conserving the earth rather than to antagonistic relationship.

Entrepreneurs are innovative thinkers. Their talents are exhibited in groundbreaking technology in environmental control.

### **Leading in Environmental Protection and Economy in the Future**

Japan is staying ahead in the future and responsibly arresting the global

environmental problem. Many transition economies and developed countries are continuing to rely on Japan's technology development and the business international cooperation to boost economy on sustainable growth. It is reckoned that there is no one mode that will be effective in all circumstances. However, the Japanese-style business does not preclude its applicability to other countries.

Economic growth does not merely increase the burden on the environment. Economic growth also provides the conditions that are necessary to protect the environment by making it possible to bear the costs of environmental protection.<sup>9</sup> Global environment is deteriorating, but it is not the worst of time. It may be the best time instead. From an optimistic perspective, entrepreneurs or scientists are attempting for breakthrough to improve people's welfare while improving environment. As Charles Dickens, one of the most popular English novelists, said it was the best of times; it was the worst of times in 'A Tale of Two Cities'. This saying quite tells about our current situation of the world we are living in.

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